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ABSTRACT

Relevant macroeconomic perspectives to improve investment planning and managing of resources in colleges and universities is discussed. Five sections are as follows: (1) simple relationships between expenditures and giving (simple costs and returns); (2) conceptual refinements: predisposition and capacity (effects of predisposition, effects of capacity, combined effects, and measuring costs and returns); (3) research estimating the costs of fund raising (estimated costs); (4) practical application: interpreting costs (capital investment and consumption, research about predisposition and capacity, the utility of gift revenues, non-incremental development alternatives); and (5) looking to the future (the role of institutional research). Several prerequisites for effective research about the development profession are suggested. At this time, internal research monitoring changes in average and marginal costs within individual institutions is the only realistic method for planning and managing effective performance. Tables and figures are included. Contains 10 references. (SM)

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THE ECONOMICS OF DEVELOPMENT PLANNING

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Few issues attract more intense interest or engender livelier debate among development officers than the subject of the appropriate magnitude of investment in development and the optimal deployment of this investment to achieve the best results. What is the appropriate level of expenditure?

This question underscores a difficult task which development officers must confront on a continuing basis: PLANNING and justifying resource investment in development, based on realistic expectations about overall goals and the costs of achieving them.

Under the best of conditions, development managers and academic officers attempt to identify attainable but ambitious giving targets, to stretch the capacities of development staff and to challenge the benevolence of donor prospects. The planning process is a negotiated tradeoff between the magnitude of targets and resource requirements to achieve them, that is, a tradeoff between giving goals and development expenditures.

All to frequently, financial jeopardy subverts the development planning process, with giving targets dictated primarily by academic needs rather than by necessarily realistic development aspirations. In this case, the financial urgencies which inspire ambitious development goals typically also constrain investment to reach the goals.

Under normal circumstances, estimating budgetary needs for development is important. In times of financial exigency the

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estimation is critical. Development goals and budgets must reflect realistic expectations rather than wishful thinking.

My charge, to identify relevant microeconomic perspectives to improve the planning and managing of resource use, requires neither new analytical ideas nor application of concepts and methods unfamiliar to fund-raisers. Rather, the effort is one of identifying and explicitly acknowledging the economic concepts reflected in the common perceptions and conventional wisdoms guiding current development practices.

This chapter is organized in four main sections and a brief conclusion. The first two sections propose a simple conceptual framework for thinking about relationships between development expenditures and gift revenues. Results of research about these relationships are summarized and discussed in the third section. The fourth section examines some practical applications of the concepts and research results, with special attention to important limitations and qualifications. The concluding section reviews the prospects for continued progress in applying these concepts and methods to improve understanding of development performance. This review suggests several prerequisites for effective research about the development profession.

Simple Relationships Between Expenditures and Giving

A few introductory comments about the examples which follow are appropriate. This description attempts to preserve a convenient consistency in the several tables and figures presented to illustrate the proposed concepts and methods. All of the figures employ the same format and the same variables on the horizontal axis (Expenditures) and vertical axis (Gift Revenues). This consistency simplifies the discussion greatly, and, it is hoped, contributes to the clarity of the descriptions and explanations.

The examples illustrate highly simplified representations of the relationships examined. This useful simplicity, although unrealistic in detail, faithfully represents the most important characteristics of the proposed relationships--the consistent,

relatively stable features which underlie the more volatile idiosyncrasies of fund raising and giving.

This writing employs two simple measures, "RETURNS to development expenditures" and "COSTS of giving," to express the same relationship between expenditures and giving. These expressions are, of course, reciprocals of one another. If the cost of each gift dollar is one-tenth of a dollar (or ten cents), then the return for each dollar of expenditure is ten dollars. The text occasionally switches from one to the other of these reciprocal measures of development performance, depending on the convenience afforded by one or the other in the particular context of the usage.

Estimating returns or costs is difficult. The best methods can only represent the direct relationship between expenditures and gift revenues in a single year or the typical relationship which prevails over a longer time period. The causal relationships between fund-raising efforts and giving are neither direct nor immediate. This difficulty does not preclude the achievement of significant insights by considering well-behaved theoretical relationships between expenditures and gift revenues.

Simple Costs and Returns. Figure 1 shows the simple relationship between fund-raising expenditures and gift revenues for three hypothetical institutions. The bottom line illustrates the relationship for an institution with relatively small returns (and high costs). The middle and top lines illustrate the relationships for institutions with moderate returns (and costs) and large returns (and low costs).

Notice that the lines are different in two respects: their vertical elevation in the figure, and the steepness of their slope from left to right.

The next section proposes separate explanations for these two differences--the elevation of each line and the slope of each line. Subsequent discussions about applications focus on the causal significance and practical implications of these two phenomena. In addition, the discussions introduce conceptual refinements which relax some of the implicit simplifications of

Figure 1, for example, the linear depiction of the relationship between expenditures and gift revenues. Most experienced fund raisers know that these lines are not straight. Several other refinements receive attention along the way.

Conceptual Refinements: PREDISPOSITION and CAPACITY

Figure 1 presents the relationship between expenditures and gift revenues as strictly linear throughout the observed range. This simplification ignores two obvious theoretical exceptions to linearity about which fund-raisers agree, at least in principle. First, the figure does not illustrate the relationship between expenditures and gift revenues for extremely modest levels of expenditure, in this case, between zero and where the line begins. Second, the figure does not represent the potential limits and increasing difficulty of securing additional giving at higher levels of giving.

This section addresses these two issues by introducing two theoretical concepts which clarify common assumptions reflected in the conventional wisdom shared among fund-raisers. Resort to these concepts is not a seminal contribution to current thinking, but rather, a means to explicitly underscore the implicit assumptions and examine more closely some of the practical implications of each.

Effects of Predisposition. Experienced development officers understand that the results of new or very modest fund-raising programs or activities primarily reflect the *a priori* motivation (or willingness) of donor prospects to contribute, independent of efforts to cultivate their support. In rare, but pleasant, instances this motivation precipitates unsolicited giving to a college or university. More often, but not always, *a priori* motivation accounts for a relatively large return of gift revenues (at low costs) for new or modest fund-raising efforts. This return reflects giving by donor prospects for whom the simple fact of being invited to contribute is sufficient to secure a gift.

The potential impact of giving which primarily reflects the strength of prior motivation warrants explicit attention to the concept of donor prospect Predisposition. The effect of predisposition may be substantial if a large percentage of donor prospects harbor strong motivation to give independent of fund-raising efforts. However, the effect of predisposition may also be insignificant, if few donor prospects are strongly motivated to give in the absence of quite persuasive formal donor prospect cultivation efforts.

Figure 2 compares the relationship between expenditures and gift revenues for an institution with low donor predisposition and another with high predisposition. The slope (steepness from left to right) of the two lines is identical, but the institution with high predisposition receives a larger gift revenue return for the initial level of expenditure shown. The difference is a consequence of the difference in donor prospect predispositions in the two institutions. Strong prior motivation causes a significantly greater response to initial appeals by the institution whose prospects possess higher predisposition.

Predisposition determines the elevation of the line representing the relationship between expenditures and gift revenues. The effect of predisposition is most apparent for modest fund-raising programs consisting of simple appeals for support with little donor prospect cultivation, for example, a general mail appeal program requesting annual contributions. Other less modest fund-raising efforts which rely on more extensive and more sophisticated cultivation efforts, such as leadership giving clubs and personal solicitation programs, are much less dependent upon predisposition. These programs attempt to enhance the a priori motivation (predisposition) of donor prospects to contribute.

At the lowest levels of expenditure, the relationship between expenditures and gift revenues is quite complicated. Predisposition plays a key role, to be sure, but the start-up costs associated with establishing the minimum level of effective solicitation effort required to capitalize on the prevailing predisposition is difficult to deduce by straightforward

intuition. The idea of a minimum threshold of fund-raising effort just adequate to secure predisposed giving is intriguing, but exceeds the scope and focus of this writing.

For this discussion, the important principle is that predisposition determines the elevation of the line representing the relationship between expenditures and gift revenues.

Effects of Capacity. Independent of motivation to give, donor prospect giving CAPACITY fundamentally influences the frequency and magnitude of contributions. Development officers freely admit that assumptions about donor wealth and income determine giving prospects and fund-raising strategies.

Spectacular capacity overwhelms the importance of predisposition, because the potential for a large contribution justifies the cost of donor prospect relations and cultivation to create motivation if predisposition is low. Low capacity limits the investment which fund-raisers are likely to devote to cultivation of an individual donor prospect or group of prospects, because neither predisposition nor induced motivation can secure more than modest support from prospects without resources from which to give.

Although the exact effect of wealth and income on giving is a matter of some debate, most theoretical models posit an interaction between motivation (reflecting predisposition and donor prospect cultivation) and capacity (reflecting prospect wealth and income). This hypothesized interaction between motivation and capacity is consistent with common economic models of consumer choice, according to which capacity either promotes or inhibits the effect of motivation. This means that the effect of changing motivation depends on giving capacity. Specifically, the gift dollar return which might reasonably be expected to accompany an increase in fund-raising expenditures is determined by the giving capacity of donor prospects.

Figure 3 illustrates a simple case, showing the effect of capacity for two institutions with similar predisposition. The institutions receive similar predisposed gift revenues for similarly modest levels of expenditure for fund raising.

This figure illustrates two different consequences of the difference in capacity. First, the returns for increasing levels of expenditure are higher (and the costs lower) for the institution with high capacity than for the institution with low capacity. In addition, although the returns eventually decrease for higher levels of expenditure in both institutions, the level of giving at which this occurs is higher for the institution with high capacity.

This depiction represents capacity as determining the rate of return for fund-raising expenditures. As total giving approaches the theoretical limit of overall capacity for each institution, the return decreases rapidly. Whether or not the relationship between expenditures and gift revenues is strictly or approximately linear above the level of expenditure necessary to secure predisposed giving and below the level approaching the total theoretical capacity of the donor prospect population is a very important question, but not essential in the current discussion. The line may be curved throughout, slightly at first--with the rate of curvature increasing, rather than linear and then curved as shown in the figure.

Two features of Figure 3 reflect simplifying concessions which may be potentially misleading. Strict adherence to the principle that giving is a joint consequence of motivation (whether predisposed or cultivated) and capacity does not dictate the same amount of predisposed giving for the two institutions if predisposition is the same in both. The level of predisposed giving might actually be higher for the institution with high capacity. In addition, the figure shows the decrease in return starting at the giving level reached via the same level of expenditure in both institutions. This is not necessarily the case, since the level of total giving relative to capacity, not expenditures, determines the region of decreasing return.

The essential principles illustrated in Figure 3 are that capacity determines the slopes of the two lines as well as the levels of giving above which the slopes start to decrease. Donor relations and cultivation efforts can move either institution to higher points of giving on their respective lines, but cannot

alter the slopes or the points of decreasing return, which both reflect the giving capacity of the donor prospect population.

Combined Effects. The preceding sections introduce the concepts of donor prospect predisposition and capacity, and describe their impacts on the relationship between fund-raising expenditures and gift revenues. Both factors determine the level of giving which results from investment in fund-raising programs, but the nature of their influence is quite different. Predisposition determines the magnitude of giving which reflects a priori donor motivations sufficient to induce giving in response to modest fund-raising efforts. This impact defines the baseline of giving upon which more ambitious prospect relations and cultivation must build. Capacity determines the rate of return for these more ambitious fund-raising efforts and dictates the limit of total giving near which the return decreases.

Figure 4 illustrates the hypothesized effects of predisposition and capacity in four institutions. The four lines represent the theoretical relationship between expenditures and gift revenues for all four combinations of low or high predisposition and capacity: (1) low predisposition and low capacity, (2) high predisposition and low capacity, (3) low predisposition and high capacity, and (4) high predisposition and high capacity. The starting points for the lines, indicated with crosses (+), show the levels of predisposed giving which occur for modest fund-raising expenditures. The points of decreasing returns for each institution are indicated by solid circles (o).

The figure shows the expected consequences of the proposed effects of predisposition and capacity described in this chapter. Note especially the distinction between effects of predisposition and capacity. Predisposition determines the initial return for modest expenditures. Capacity determines the rate of return for additional expenditures exceeding that required to secure predisposed giving, and the level of giving above which this rate of return decreases--as total giving approaches the theoretical capacity of donor prospects.

The practical implications of the relationships shown in Figure 4 are dramatic. Institutions with similar capacity can achieve similar results, but the expenditures required directly depend upon the effect of predisposition. Consider that the institution with low predisposition and low capacity must spend approximately twice as much to reach the point of decreasing return as the institution with high predisposition and low capacity. Similarly, the institution with low predisposition and high capacity must spend nearly half again as much as the institution with high predisposition and high capacity to reach the same point.

Perhaps more important, neither institution with low capacity can achieve the maximum results achieved by the institutions with high capacity--at any price. Moreover, in the range of attainable results, institutions with low capacity must pay more to secure giving in excess of predisposed giving than the institutions with high capacity.

The frequent observation about institutions with highly successful fund-raising programs, that "the rich get richer," is consistent with the opportunities or constraints afforded by variation in predisposition and capacity. Some institutions must spend more than others for the gift revenues they can secure, and these revenues may be smaller than for other institutions spending significantly less.

Measuring Costs and Returns. The proposed conceptual bases described in this section provide a critical perspective for understanding and interpreting the results of several efforts to estimate the costs of securing voluntary support among colleges and universities. Before turning to these results in the next section, the short explanation which follows identifies a common distinction between average and marginal costs. This distinction is widely understood but the implications are consistently overlooked in the reported cost studies.

Figure 5 shows the relationship between expenditures and gift revenues for a single institution, along the curved line with points labelled 1 through 10. This depiction resembles

previous illustrations, except for the addition of the line from the origin, labelled 0, to point 1. The ten points on the line are labelled 1 through 10, to identify specific levels of expenditures and gift revenues during a ten-year period. For this example, assume that the time period represents the first ten years after the establishment of a new development program in an institution where none existed previously.

Table 1 displays the values for each point in the figure, together with calculations for average and marginal costs. Consider first the cost of giving in the first year, associated with point 1 on the curve. The cost of these gift revenues is the simple ratio of gift revenues divided by expenditures, that is, 40 thousand divided by 1.7 million, or 2.35 cents per gift dollar raised. Note that this is the <u>average</u> cost of each of the dollars raised at this level of expenditure. Also recall that this giving, in response to the initial modest effort, includes a high proportion of predisposed giving.

Because the results of the first year are so gratifying, the institution doubles its investment in development during the second year, spending 80 thousand dollars altogether. At this higher level of expenditure, the institution receives gift revenues of 2 million dollars. The average cost in the second year is 80 thousand divided by 2 million, or exactly 4.00 cents per dollar raised. The average cost is still quite low, but this average does not tell the whole story.

Comparing the first year to the second underscores the importance of the concept of <u>marginal</u> costs, as opposed to average costs. The institution spent 40 thousand dollars more in the second year than in the first. For this additional expenditure, the institution received gift revenues 300 thousand dollars higher than in the first year. The cost of these additional dollars is 40 thousand divided by 300 thousand, or 13.33 cents per dollar raised. The marginal cost for the incremental gift revenues in the second year is more than three times the average cost for all gifts received that year!

Notice that the average and marginal costs are the same in year one. This is the case because total expenditures and gift

revenues in the first year are the same as new expenditures and gift revenues, since both are zero in the previous year--at least theoretically.

For year 3 through year 5, the institution continues to receive 300 thousand dollars in additional giving for each 40 thousand dollar increase in expenditures. The marginal cost of 13.33 cents is constant throughout this range of giving. Notice that the average cost is increasing in this range, even though the marginal cost is constant. This phenomenon reflects the fact that each succeeding year's receipts include a larger proportion of more expensive gift dollars. In year 1 the total includes 1.7 million dollars which cost 2.40 cents each. In year 2 the total includes 1.7 million at 2.40 cents and 300 thousand at 13.33 cents. In year 5 the total includes 1.7 million at 2.40 cents and 1.2 million at 13.33 cents.

In this example, when giving exceeds 2.9 million, the amount of additional gift revenues received for each 40 thousand dollar increase in expenditures declines. This reflects the fact that total giving is approaching the theoretical total capacity of the donor prospect population. In year 6, the increase only nets an additional 150 thousand dollars, instead of 300 thousand. In year 8, this increase shrinks to 37,500 dollars, for a marginal cost of nearly $1.07 for each additional dollar received. The decline continues through year 10, when the 40 thousand dollar increase over year 9 nets less than 10 thousand additional gift dollars and the marginal cost is $4.27 for each dollar raised! But the average cost is still only 12.50 cents per dollar raised. This average is obviously quite misleading.

The distinction between average and marginal costs is particularly important for monitoring the efficiency of fund-raising efforts, because the impact of a potentially high proportion of low-cost predisposed giving in the total tends to obscure less efficient performance at the margin. This tendency invites seriously misleading expectations about incremental giving likely to accompany increased expenditures. The mistake can be very expensive.

Although employed less frequently in the professional literature, the concepts of average and marginal returns underscore the same features of the relationship between fund-raising expenditures and gift revenues as average and marginal costs. Table 2 reports the average and marginal returns which correspond to the costs reported in Table 1.

Notice that, within the limits of rounding errors, the corresponding costs in Table 1 and returns in Table 2 are reciprocals of one another. For example, the average cost of exactly 4 cents in the second year is equivalent to 1/25th of a dollar spent per gift dollar raised. Equivalently, the average return in the second year is 25 dollars in gift revenues per dollar spent.

The returns reported in Table 2 are equivalent to the patterns of costs reported in Table 1. The average and marginal returns are the same in the first year; in the second through fifth years, the marginal returns are constant but lower than in the first year, and the average returns are decreasing; in the sixth through tenth years, the marginal returns decrease rapidly while the average returns decrease more slowly. The average returns after the eighth year do not reveal that the marginal return is less than one dollar for each dollar spent.

Research Estimating the Costs of Fund-Raising

Of the small handful of formal efforts to estimate development costs for individual institutions, results of the seminal work and subsequent follow-ups by John Leslie [1969, 1971, and 1977] are the most widely disseminated. Summary data from a similar study conducted by the Consortium on Financing Higher Education (COFHE) have been reported [Ramsden, 1979], but details of the data remain the exclusive property of the COFHE member institutions [COFHE, 1976]. The Council for advancement of Small Colleges (CASC) maintains a data analysis service, which administers a Fund-Raising Module for monitoring measures of development performance, including costs per gift dollar [CASC,

1979]. However, the data accumulated from colleges which purchase the data service have not been reported publicly.

Small groups of institutions occasionally cooperate to share information about development performance informally. One such effort was organized by James Ridenour at Western Maryland College, to assemble data from a sample of colleges in the region [Ridenour, 1978]. More recently, John Dunn has spearheaded a similar plan to assemble development data from approximately 25 private universities. The results of preliminary efforts to examine similar data from a subset of these institutions have been reported [Dunn, 1985].

These systematic attempts to examine the performance of development efforts and the costs of securing support employ relatively similar definitions and methods. The consistencies which prevail probably reflect the standardizing influence of the annual survey of voluntary support conducted by the Council for Financial Aid to Education (CFAE), more than any conscious effort to use similar definitions among the studies. Data from the survey have been reported by CFAE each year since the middle 1960s in their annual report, Voluntary Support of Education [1966-1984]. The survey and report afford a de facto standard for defining gift revenues received by colleges and universities, and the cost studies approximately define as fund-raising expenditures those devoted to securing CFAE gift revenues.

Relatively minor differences among the cost studies reflect various smoothing strategies for representing gift revenues received via bequests and various trust or annuity arrangements. Since giving in these categories is often quite volatile from year to year, reflecting occasionally very large individual contributions, some of the studies employ three or five year averages to represent these components of total gift revenues. Other studies exclude bequests and trusts from the total.

Bequests, trusts and annuities, and other very large contributions pose a special problem for monitoring costs, because such gifts often reflect several years of ongoing donor prospect relations and cultivation efforts. In addition, bequests are particularly troublesome, because the timing of the

actual receipt of the gift is an actuarial event largely independent of the extent and timing of fund-raising efforts.

For larger development operations with mature major gift, bequest, and deferred giving programs, these difficulties are less serious. For newer or more modest operations, conduct of these giving programs requires current expenditures for donor prospect relations and cultivation which are investments for future gift revenues.

Most of the cost studies warn that the fund-raising expenditures recorded probably underestimate the full costs of giving, because some institutional programs and activities which support fund raising are executed outside the development office and expenses for these appear in other than development budgets. Leslie includes expenditures for public relations, alumni affairs, and publications, together with direct expenditures for fund-raising activities. In contrast, the COFHE and CASC methods are more selective, including all expenses for direct fund-raising activities but only expenses for activities which directly support fund-raising from public relations, alumni affairs, and publications.

None of the studies attempts to include expenses associated with the time devoted to development by senior academic officers, faculty, or others. The central importance of the president's participation in development, for example, certainly justifies the concept that a portion of his or her salary is a legitimate fund-raising expense. Other senior administrative officers or deans probably participate in development activities too, though less extensively. Few institutions routinely monitor the expense of such personnel time devoted to development. Whether or not the effort to do so is worth the trouble is certainly debatable.

Consistency in recording fund-raising expenditures among institutions for comparative purposes is far more important than an absolutely comprehensive accounting, in any case. On this point, the several cost studies which have been conducted afford reasonably reliable data.

Estimated Costs. Table 3 summarizes the fund-raising costs estimated in the studies identified above. The table also indicates the date of each study (or time period covered), together with the number and description of institutions included. The range of estimated fund-raising costs and approximate median are reported for each study.

Despite wide variation in the costs observed in each study, and significant differences among types of institutions, the medians reported for individual types which appear in more than one study are remarkably similar. The medians for costs reported for private universities in three studies conducted exactly eight years apart are grouped between 7 and 9 cents. The actual distributions of reported costs (not shown) reveal that the majority are between 5 cents and 20 cents.

Costs of giving among private colleges are slightly less narrowly distributed, but this variation requires an explanatory comment. The COFHE sample of private colleges is a very homogeneous group of the most highly selective, elite liberal arts colleges in the country. These colleges have among the most mature, stable, and ambitious development programs of any liberal arts colleges. The relatively narrow range of costs observed in this group, from a low of 5 cents to a high of 18 cents, reflects the maturity and stability of these programs as well as the similarities among these colleges.

In sharp contrast to the COFHE group, the private colleges in the Leslie and CASC samples are much less alike, both in the magnitude, nature, and maturity of development efforts, as well as general college characteristics such as size, selectivity, educational mission, and curricular emphasis. A significant percentage of the colleges in both studies, but particularly the CASC sample, are very small, unselective, regional or local colleges. A large number of these colleges confronted serious financial challenges during the time of the cost studies, and many were pursuing (for them) relatively ambitious strategies to expand previously modest development programs. The colleges in the Ridenour sample are more similar to the Leslie and CASC groups than to the COFHE group. The Leslie, CASC, and Ridenour

cost estimates for private colleges are all between 18 and 24 cents.

The only cost estimates for public universities are from the Leslie sample. This limited base of evidence indicates very dramatic variation from lowest to highest costs, from 7 cents to one dollar and 32 cents, with the median at 20 cents. The reliability of these figures is difficult to evaluate, because the sample is small and old. If publicly reported gift revenues are any indication, the nature and magnitude of development efforts among public institutions have undergone profound changes during the last two decades. Since the middle 1960s, the percentage of all voluntary support of higher education received by public four-year institutions has approximately doubled, from less than 15 percent of the total to more than 30 percent [CFAE, 1966-84]. This dramatic change is a very good reason to interpret the Leslie data with some reservation.

Practical Application: Interpreting Costs

The most important caveat about all of the studies of fund-raising costs per gift dollar is that they examine <u>average</u> costs, not marginal costs. This point warrants repeating. The costs reported in Table 3 are average costs, not marginal costs. In every case, the cost estimates for individual institutions are determined by dividing total fund-raising expenditures by total gift revenues.

The comparisons between average and marginal costs in the previous section (above) underscore the potential pitfalls of exclusive reliance on average costs as an indicator of fund-raising performance. Average cost estimates for institutions with very modest or relatively new (immature) development operations are likely to be the least reliable indicators of future performance, because gift revenues among these institutions include higher percentages of low-cost predisposed giving.

Except for general observations about probable pressures to increase voluntary support in response to financial jeopardy, and

the obvious maturity of development programs among the COFHE institutions, nothing is known about the context and status of fund-raising efforts among individual colleges and universities in the cost studies. Certainly some of the programs are relatively new, receiving substantial predisposed giving. Costs among these institutions would be atypically low.

No doubt, many of the institutions were in the midst of building to higher levels of support for the future, that is, investing current fund-raising expenditures for future gift income--as a hedge against deteriorating prospects for tuition and other revenues. Costs in these institutions should be expected to be atypically high. Acute financial crises among some institutions may have actually precipitated short-term decreases in development expenditures, to preserve budget support for academic programs. Average costs in such cases could be lower than normal, reflecting the momentum of previous investment in fund raising which is not being replaced.

These idiosyncrasies obscured beneath the simple estimates of average costs require explicit consideration for realistic interpretation of fund-raising performance. Despite these caveats, the results of cost studies provide valuable normative benchmarks for identifying realistic development expectations and monitoring the effectiveness of ongoing fund-raising programs and activities.

The available evidence indicates a range of typical average costs among private universities between 5 cents and 20 cents, with costs in stable mature development programs between 5 and 10 cents, and in developing or expanding programs between 10 and 20 cents. Average costs below this range probably reflect very modest programs receiving primarily predisposed giving, or temporarily low costs reflecting the momentum of previous development investments rather than current effort--that is, capital consumption without replacement.

In private colleges, the typical range for average costs is between 10 cents and 25 cents, with costs in stable mature programs between 10 and 15 cents, and in developing or expanding efforts between 15 and 25 cents. Average costs below 10 cents

suggest a large proportion of primarily predisposed giving or temporary consumption of prior investments.

Among these several cost studies, the average costs reported by institutions receiving the largest volumes of voluntary support (not shown here) are consistently in the middle or slightly lower than the middle of the reported cost ranges. This finding is preliminary evidence that the most successful development operations are not experiencing dramatically high costs which would accompany giving levels close to exhausting total donor prospect capacity.

Capital Investment and Consumption. Temporary development "profit-taking" is analogous to the short-term corporate financial strategies about which many business analysts have been critical recently. Executing closure on major gift prospects cultivated via lengthy donor relations efforts over a period of years--without continuing to cultivate new major gift prospects for the long-term future..., waiting for mortality to deliver previously established bequest commitments--without pursuing new bequest prospects..., focusing on the remaining few of the top priority donor prospects identified by the most recent comprehensive prospect research and screening effort ten years ago--rather than conducting a new prospecting effort..., all of these behaviors are dangerous forms of capital consumption, not unlike the corporate capital consumption responsible for the dilapidated facilities and equipment or obsolete production processes in corporate manufacturing.

This strategy may afford artificially low average fund-raising costs on a short-term basis, but the efficiency is illusory. To sustain giving levels, the long-term investments in prospect research and cultivation, volunteer networks, and other fund-raising capital must be replaced eventually. Atypically low costs probably reflect postponed expense, not real efficiencies. Moreover, depleting and recreating these investments may be more expensive than maintaining them on an ongoing basis. Stopping and starting basic research and development, in development as in industry, is expensive. Recent recognition of this may be partly

responsible for the trend toward fund-raising strategies of continuous campaigning among some of the most consistently successful development operations.

Research About Predisposition and Capacity. The majority of other research about development efforts reflects the nearly exclusive prescriptive emphasis of the professional development literature. Many studies examine the relative effectiveness of alternative fund-raising practices, in an attempt to identify optimal strategies and techniques. However, these studies confront the common frustration of limited knowledge and understanding about relevant institutional differences which promote or inhibit the productivity of fund-raising efforts, independent of the effectiveness of the specific techniques employed.

John Leslie's contribution to the New Directions volume edited by Warren Heemann [1979] presents a perceptive case for the need to better understand the role and impact of institutional differences, under the heading of estimating gift potential. Leslie summarizes the need succinctly:

> "How well did we do compared to how well we could have done?" This question should be on the lips of every college and university fund-raising manager. It suggests a driving desire to achieve potential--to wring every once of productivity out of every dollar that the institution spends on people and support funds in an effort to secure private gifts. But assessing annual fund-raising potential and developing reliable measurements are not simple tasks. Potentials vary from one institution to another, and (at least at the present moment) no standard system is available. This fact, however, does not negate the importance of dollar-potential assessment in the effective management of educational fund-raising programs. [p. 59]

This affirmation of the value of knowing and understanding the impact of gift potential acknowledges the difficulty of identifying systematic methods to do so. The major obstacle is the difficulty of assessing donor prospect predisposition and capacity as described in this chapter. The methods for evaluating predisposition and capacity are so far largely subjective and qualitative--relying on the experienced intuitions

of the directors and managers of development programs. In the absence of formal theoretical bases and doable methods for making more objective quantitative assessments, the professional literature focuses on simple relationships between fund-raising expenditures and gift revenues. Leslie continues,

> ...no broad-based study of fund-raising potential is listed in the literature of the field or known to the author. Rather, the principal focus of research to date has been along the lines of attempting to measure efficiency--dollars spent versus dollars raised. [p. 60]

The content of the professional literature has not changed dramatically since Leslie's summary of research needs seven years ago. Most published material still begs the question of donor potential and variation in potential among different institutions and different types of institutions.

The limited progress of current research about institutional differences which influence predisposition and capacity underscores the value and importance of internal research to monitor development performance within institutions. Institutional monitoring of the relationship between expenditures and gift revenues is the best current source of information for strategic planning and ongoing management of program effectiveness.

Systematic institutional research to estimate marginal costs of gift revenues or returns to fund-raising expenditures is also an essential prerequisite to improve the availability of reliable data for examining the impacts of institutional characteristics on predisposition and capacity. Comparative research cannot achieve significant progress until record keeping practices improve <u>within</u> institutions.

The traditionally low priority of efforts to monitor costs or returns within individual development offices is not surprising. In the absence of reliable comparative norms for estimating realistic resource requirements to achieve development objectives, many development offices confront ambitious expectations far in excess of reasonable staff capacities. This phenomenon forces a desperate tradeoff of personnel time between getting the impossible job done and conducting institutional

research about the productivity of the effort. The cycle is vicious, and research is the consistent loser. This is not a minor irony.

The Utility of Gift Revenues. Justifying the costs of securing voluntary support requires fundamentally different judgments than simple comparison to typical norms. Identifying a realistic range of expectations for voluntary support, and estimating likely resource requirements for pursuing these expectations are primarily a technical exercises. In contrast, establishment of specific goals and commitment of resources for achieving them requires highly qualitative judgments.

Most fund-raisers explicitly understand that different kinds of gift revenues have different value. Unrestricted giving has the highest utility, because this income can be used for whatever purpose has the highest institutional priority. Restricted giving for purposes currently supported by unrestricted revenues from nondevelopment sources (for example, tuition revenues) has the next highest utility. This restricted giving releases unrestricted revenues from other sources for reassignment--the net effect is the same as for unrestricted giving. The utility of giving for other restricted purposes is a direct function of the priority of the specific purposes and the availability of alternative methods for financing them.

This common understanding about the differential utility of different kinds of gift revenues is a fundamental consideration in justifying fund-raising costs. Even more important, however, overall financial circumstances of individual institutions are critical determinants of justifiable fund-raising costs. Within the broad limits of publicly defensible cost ranges, institutions may elect to endure relatively high costs of voluntary support temporarily, to confront immediate financial urgencies. Quantitative studies which examine simple costs of giving or returns to fund-raising expenditures obscure these important justifications. No doubt, this limitation of quantitative measures contributes to understandable defensiveness about public disclosure of costs or returns.

Non-Incremental Development Alternatives. The preceding discussion focuses on the dynamics of incremental changes in development strategies. This focus examines relationships between development expenditures and gift revenues for traditional donor prospect constituencies, primarily including prospects identified via formal affiliation to a specific institution (as with alumni), or via a presumed interest in the institution (as with local corporations or foundations with stated agendas to support higher education). The discussion of effects of predisposition and capacity presented here implicitly assumes that the total donor prospect population, reflecting tangible prospect affiliations and interests, is a fixed institutional resource, subject only to slow marginal evolutions over extended time periods. Recent evidence reveals resort to development strategies which challenge this traditional assumption.

A handful of institutions have recently achieved notable successes by pursuit of gift support from prospects outside traditionally defined constituencies, particularly including major gift prospects with little or no previous affiliation to the institution. These efforts represent a special case of the relationships examined here, in which the alluring potential of spectacular capacity justifies development activity despite minimal or nonexistent predisposition. The results of these efforts are predictable. With little or no predisposed giving, returns for modest investment in this strategy are low. However, the prospect of potentially spectacular benefactions justifies the cost and risk of this development strategy, particularly if the results of efforts with other constituencies are constrained by modest residual capacity at current giving levels.

The typical costs and effectiveness of this departure from traditional development practice are not well understood, but the strategy reveals a potential hedge against the fundamental constraint of donor prospect capacity. Although development efforts cannot alter the capacity of individual prospects, donor prospect research can identify high-capacity prospects outside the traditional constituencies. Highly focused prospect

relations and cultivation efforts with these new potential donors may prove to be an effective alternative to pursuit of marginal improvements in support from current constituencies.

Looking to the Future

Although the ideas discussed in this chapter are not new to fund-raisers, theoretical bases and research methods to confirm and refine practical interpretations and applications of these concepts are not currently well developed. On the bright side, recent activity among the professional associations reflects a growing impetus to devote attention to systematic research about fund-raising and giving, based on common standards and definitions for recording and reporting information about the performance of development programs.

The cooperative effort by the Council for Advancement and Support of Education (CASE) and the National Association of College and University Business Officers (NACUBO), to establish common reporting standards for gift revenues and fund-raising expenditures is a significant contribution. Within CASE, the recent appointment of a national committee to review research needs and recommend strategies to promote academic and applied inquiries examining theoretical and conceptual bases of the development enterprise is promising commitment to improving research methods.

The Role of Institutional Research. The continuing progress of research to understand development performance directly depends upon the improvement of efforts to gather performance data within institutions. Normative comparisons to identify typical costs and returns for different types of institutions and different development strategies and techniques require the accumulation of comparable data consistently reported by a large number of colleges and universities.

The identification of straightforward procedures for estimating expenditures attributable to development programs and activities is crucial. No other single accomplishment will improve research about development so much as identification of

doable methods for monitoring development expenditures routinely. Of necessity, the evolution of monitoring efforts must begin modestly. The tradeoff between practical doability and methodological perfection and comprehensiveness is critical. Reasonably consistent approximations for expenditures among one hundred institutions are far more valuable than perfect detail for five.

As data collection methods improve and the general level of understanding about development performance becomes more sophisticated, subsequent inquiries will pursue refinements to estimate the impact of specific conditions and circumstances associated with variation in costs or returns among different institutions. In the meantime, internal research monitoring changes in average and marginal costs within individual institutions is the only realistic method for planning and managing effective performance.

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Table 1

COMPARING AVERAGE COSTS AND MARGINAL COSTS

Year	Fund-Raising Expenditures	Total Gift Revenues	Average Costs: Expenditures divided by Gift Revenues	Marginal Costs: Range	Marginal Costs: New Expend. divided by New Revenues
0	0	0			
1	40,000	1,700,000	0.024	0-1	0.024
2	80,000	2,000,000	0.040	1-2	0.133
3	120,000	2,300,000	0.052	2-3	0.133
4	160,000	2,600,000	0.062	3-4	0.133
5	200,000	2,900,000	0.069	4-5	0.133
6	240,000	3,050,000	0.079	5-6	0.267
7	280,000	3,125,000	0.090	6-7	0.533
8	320,000	3,162,500	0.101	7-8	1.067
9	360,000	3,181,250	0.113	8-9	2.133
10	400,000	3,190,625	0.125	9-10	4.267

Table 2

COMPARING AVERAGE RETURNS AND MARGINAL RETURNS

Year	Fund-Raising Expenditures	Total Gift Revenues	Average Returns: Gift Revenues divided by Expenditures	Marginal Returns: Range	Marginal Returns: New Revenues divided by New Expend.
0	0	0			
1	40,000	1,700,000	42.50	0-1	42.50
2	80,000	2,000,000	25.00	1-2	7.50
3	120,000	2,300,000	19.17	2-3	7.50
4	160,000	2,600,000	16.25	3-4	7.50
5	200,000	2,900,000	14.50	4-5	7.50
6	240,000	3,050,000	12.71	5-6	3.75
7	280,000	3,125,000	11.16	6-7	1.88
8	320,000	3,162,500	9.88	7-8	0.94
9	360,000	3,181,250	8.84	8-9	0.47
10	400,000	3,190,625	7.98	9-10	0.23

Figure 3

SELECTED STUDIES OF EXPENDITURES PER GIFT DOLLAR RAISED

Type and Number of Institutions	Study	Approximate Timing of Data Collection	EXPENDITURES PER GIFT DOLLAR (Cents)	
			Range	Median
PRIVATE COLLEGES				
N=72	LESLIE	(1969)*	6-99	19
N=71	CASC	(early 70's)		18**
N=10	RIDENOUR	(1978)		17
N=11	COFHE	(1976)	5-18	7
PRIVATE UNIVERSITIES				
N=12	LESLIE	(1969)*	5-42	9
N=14	COFHE	(1976)	4-11	7
N=10	DUNN	(1984)	4-28	8
PUBLIC UNIVERSITIES				
N=19	LESLIE	(1969)*	7-132	20

*Similar results reported from follow-up studies in 1971 and 1977.

**Reported average is the mean for costs, not the median.

FIGURE 1

SIMPLE RELATIONSHIPS

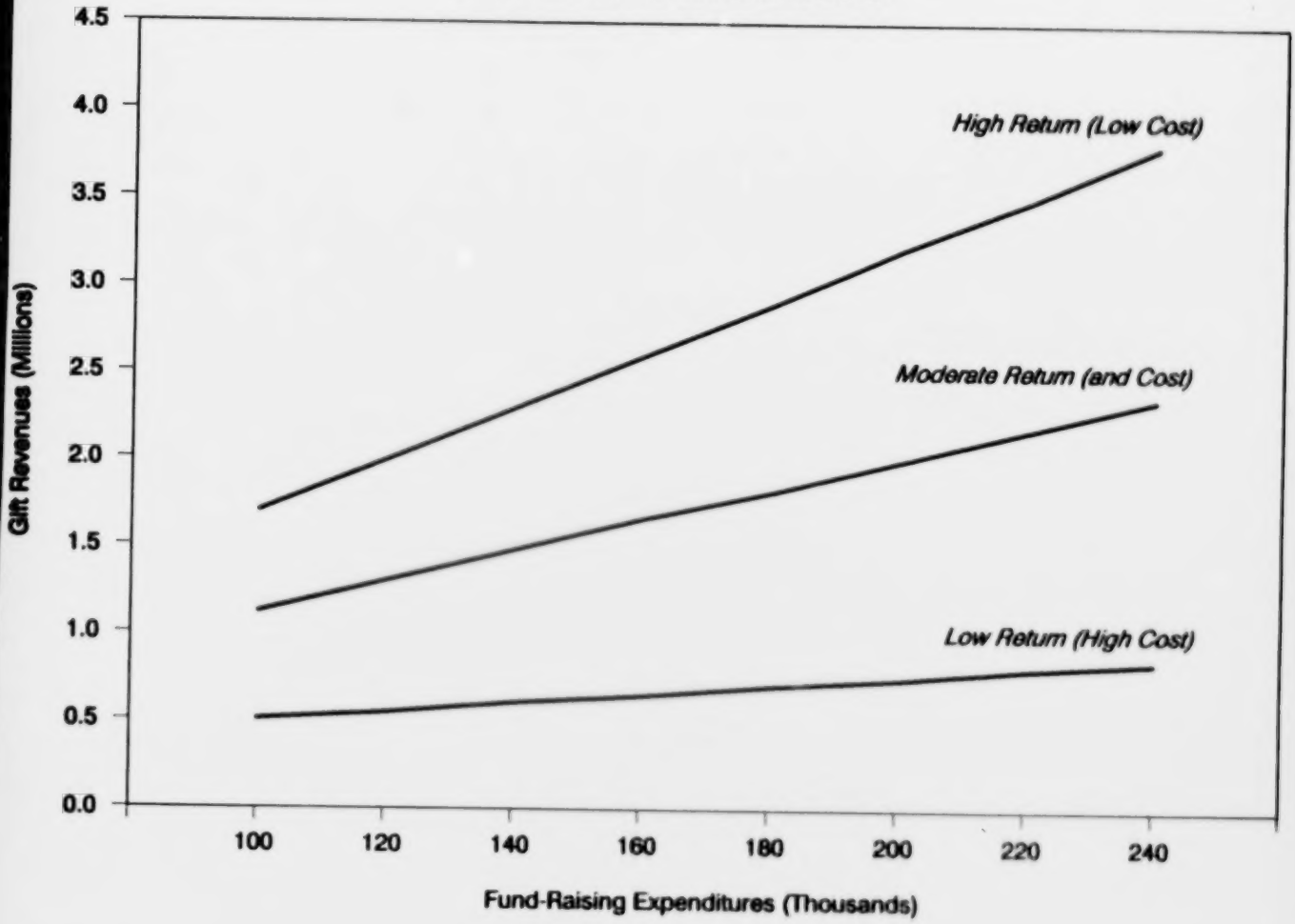

FIGURE 2
EFFECT OF PREDISPOSITION

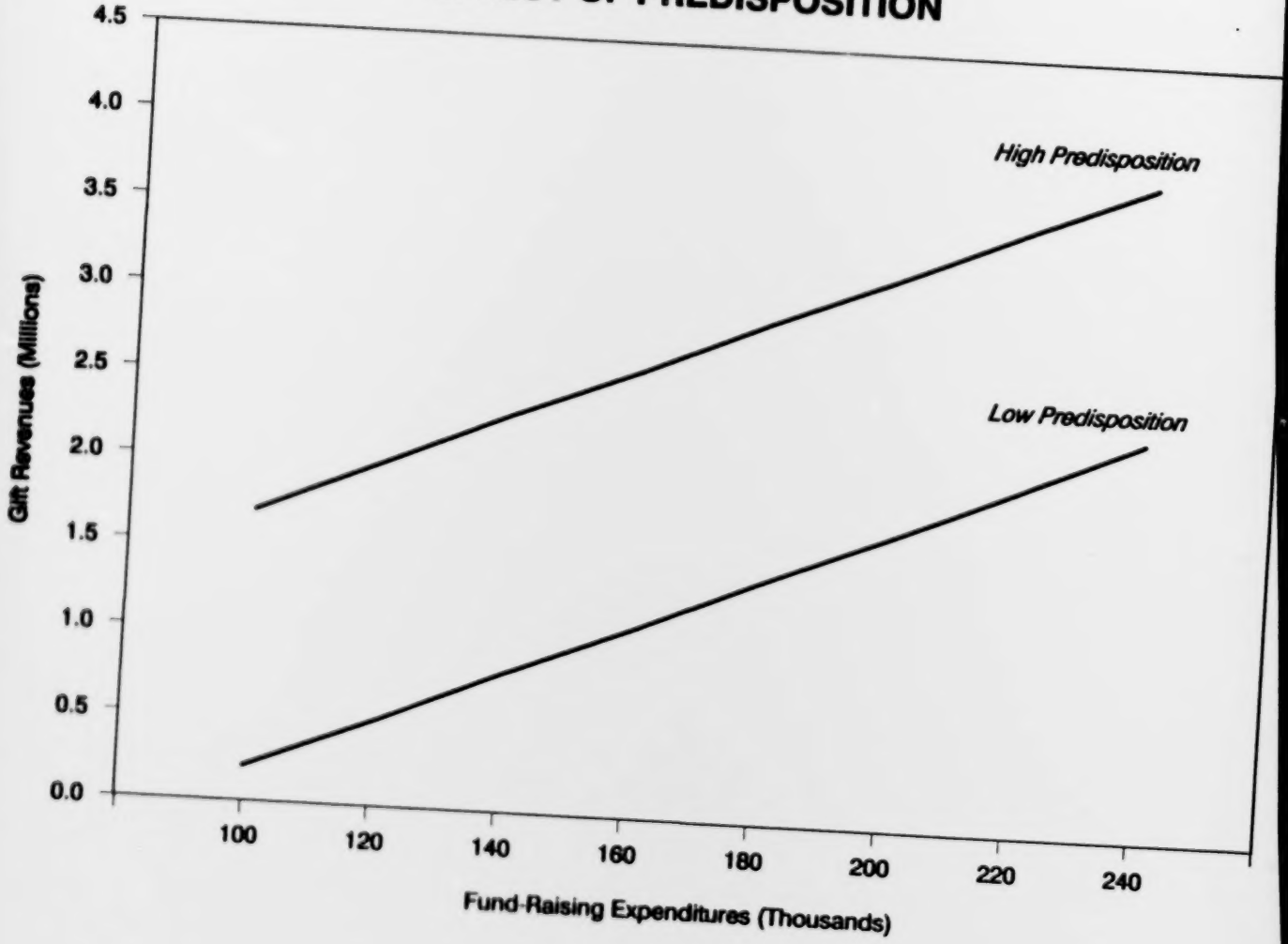

FIGURE 3

EFFECTS OF CAPACITY

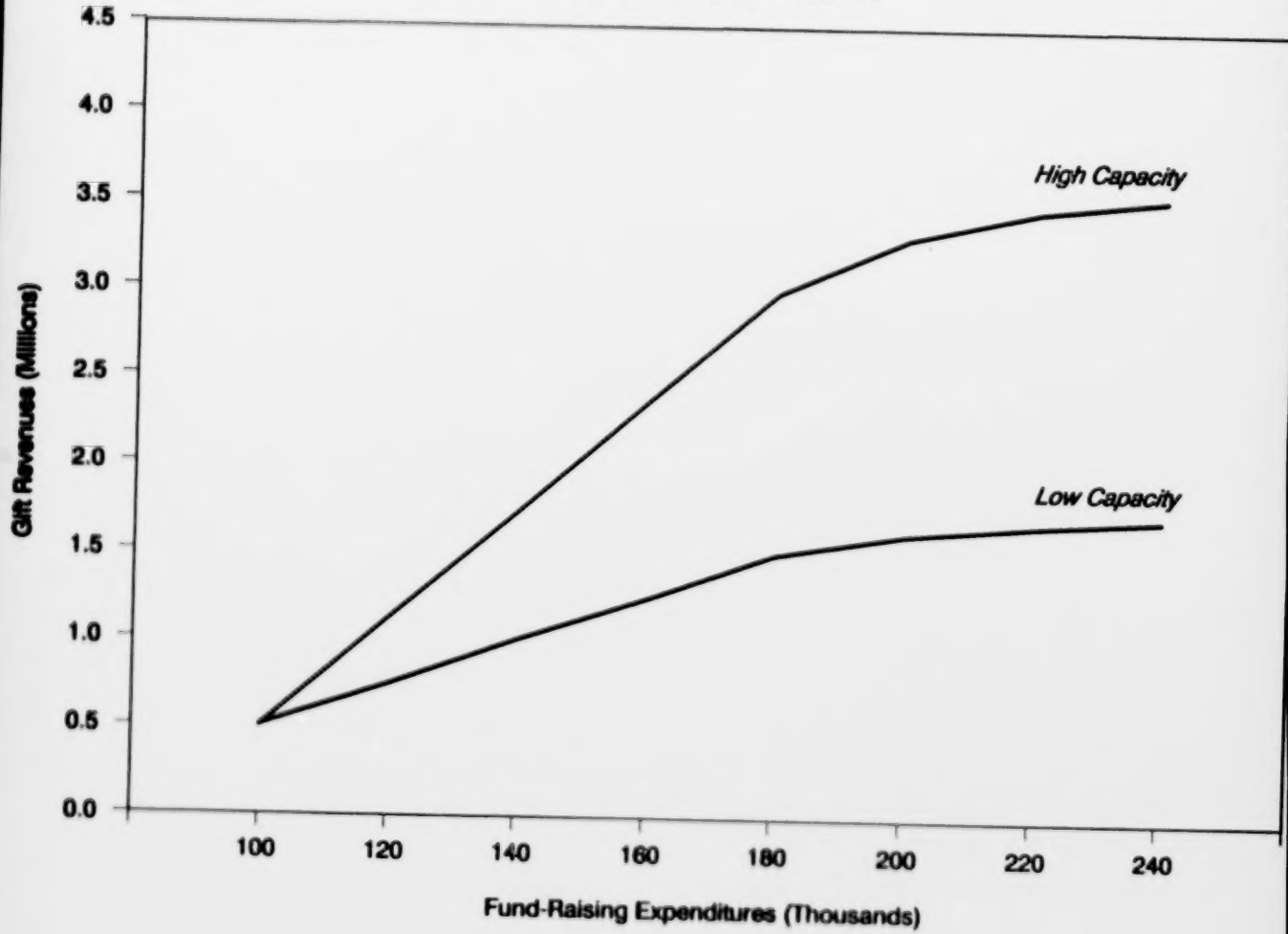

FIGURE 4

PREDISPOSITION & CAPACITY: INTERACTIONS

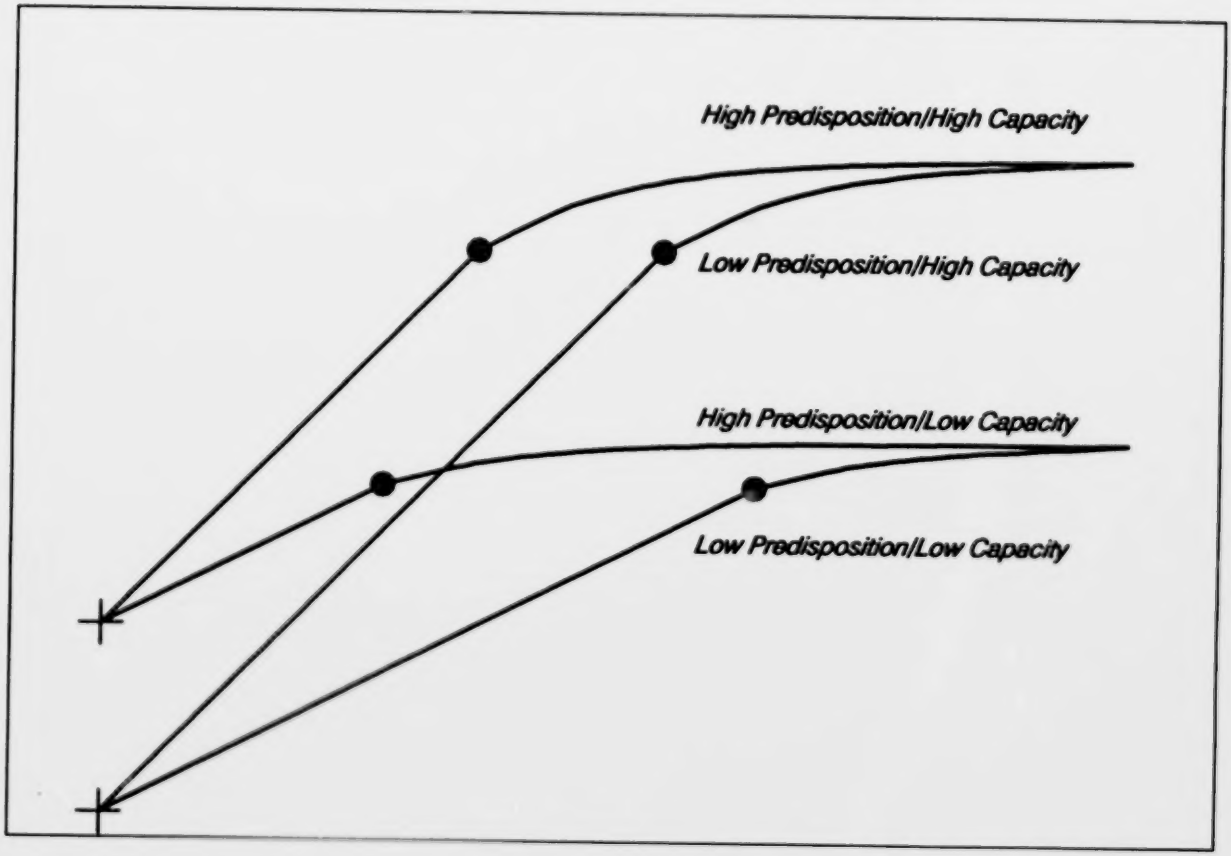

FIGURE 5

TEN YEARS OF EXPENDITURES AND GIVING